## Turning the Corner Against expectations, the local economy has had a much stronger to start to 2024 than many had anticipated. This has been driven by very encouraging employment growth, underpinned by marked expansion in the Transport, Construction and Health sectors. Given the tightness of the domestic

labour market, this continued expansion has, been largely facilitated by migrant labour [1]. Therefore, with stricter migration rules, initiatives to re-engage the economically inactive will be key to maximising future economic growth opportunities. In addition, as inflationary pressures ease, the Bank of England will have more flexibility to reduce interest rates and although concerns remain about the persistence of services inflation, the

expectation remains that the Bank will apply two quarter-point cuts to base rates in the second half of 2024. Looking into the medium term, rates are expected to settle at a new equilibrium of approximately 3.5%, much higher than the 'emergency' rates observed throughout the 2010s. This more benign monetary environment along with lower inflation and continued increases in real

The only answer to a sustained period of higher economic growth is much stronger productivity growth, which must be a priority for both the NI Executive and the new UK Government. **Key Forecasts Northern Ireland (NI)** 

wages, will boost economic growth in the next few years, before falling slightly in the medium term.

2025 2026 2027 2028 2024 GVA<sup>(1)</sup> growth rate 1.4% 1.7% 1.8% 1.5% 1.4%

2.2%

0.7%

2.1%

0.7%

2.0%

0.5%

2027

3.5%

2.0%

0.4%

2028

3.5%

### ILO Unemployment rate<sup>(2)</sup> Jobs growth

	United Kingdom (UK)						
	2024	2025	2026	2027	2028		
GVA <sup>(1)</sup> growth rate	1.1%	1.9%	2.1%	1.9%	1.7%		
ILO Unemployment rate (3)	4.4%	4.4%	4.2%	4.2%	4.1%		

2.2%

1.3%

**Macro-economic Variables** 2024 2025 2026 Interest Rates<sup>(4)</sup> (end of year) 4.75% 4.0% 3.5%

Inflation <sup>(5)</sup> (Q4)	2.6%	2.3%	1.6%	2.0%	2.0%
Source :UUEPC, OBR					
Note 1: Gross Value Added (GVA) is but excludes the impact of taxes ar	nd subsidies (most notabl	y VAT). UK GVA	growth forecast	for 2024 based of	
latest independent forecasts capture Note 2: ILO Unemployment rate (16-6		ubsequent fore	casts are sourced	from OBR.	
Note 3: ILO unemployment rate (16+)					
Note 4: Bank of England Base Rate					
Note 5: Bank of England forecasts 20					
[1] 67% of additional payrolled jobs in	2027 filled by non LIK nat	ionalc			

[1] 63% of additional payrolled jobs in 2023 filled by non-UK nationals.

A Decade of Low Real Wage Growth Nominal wage growth has been strong in recent Beyond 2024, without a marked increase in

#### (Chart 1), and although high by historic standards, NI still had the second lowest annual Analysis of employee data disaggregated across growth rates in 2023 across all 12 UK regions. the 78 (2-digit SIC) industrial categories, shows However with higher inflation, the growth in employment growth during the 2013 to 2023

wages. Only full-time males saw their real wages increase in 2023, with others experiencing a decline, in particular female part-time workers saw their real wages decrease by 4.7% in 2023. At the sectoral level, public sectors workers across Public Administration, Education and Health experienced a decline in real wages in 2023, while employees in the Professional Services and Construction sectors have seen their real wages increase significantly. Looking forward, real wages in NI are forecast to increase by 2.3% in 2024, reflecting continued labour market pressures, stronger economic growth and lower inflation. In addition, the 9.8% rise in the National Living Wages in April will provide an uplift to the lowest paid and is

years reflecting both inflationary pressures and a

tightness in the labour market. The average NI

nominal wage (all employees) increased by 5.9%

in 2023, following similar rises in 2021 and 2022

nominal wages failed to compensate for cost of

living pressures. Average real wages (adjusted for

inflation) declined in both 2022 and 2023 and

even prior to recent inflationary pressures, real

wages only increased by 0.6% per year between

In addition, not all employee types and sectors

have experienced the same impact on their

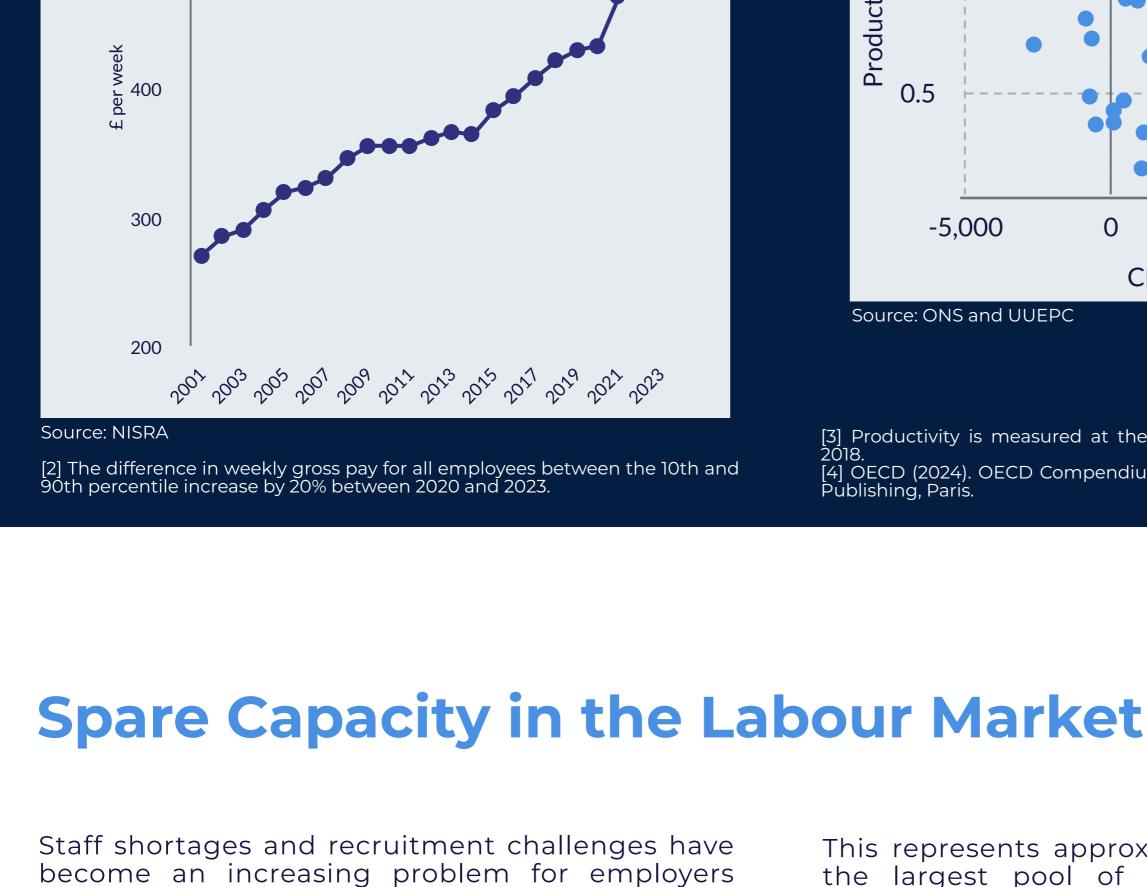
2013 and 2023.

in recent years [2].

**Chart 1: Median Weekly Gross Pay for All Employees: Nominal and Real (2023 prices)** → Nominal → Real 600 500

expected to reduce the spread between the

lowest and highest earners, which had increased



NI Chamber of Commerce Quarterly Economic Survey found that the proportion of firms reporting recruitment challenges Manufacturing and Services sectors peaked in 2021 and 2023 respectively. Although the number

of businesses reporting recruitment difficulties

has fallen from recent highs, they remain

64) increased by an average of 90k people per

decade. However, it increased by only 22k in the

2010s, and is projected to grow by just 3k this

decade. This creates a significant constraint on

economic growth and will require employers to

elevated by historic standards.

across all sectors in the local economy. The latest

largest employment gain was in Residential Care, which has below average productivity. approximately 69% of the total Overall, expansion in jobs between 2013 and 2023 were in sectors with below average productivity.

productivity, it is expected that annual real wage

growth is likely to return to 0.6% per annum

(p.a.), similar to the growth rate experienced for

period was predominantly in low labour

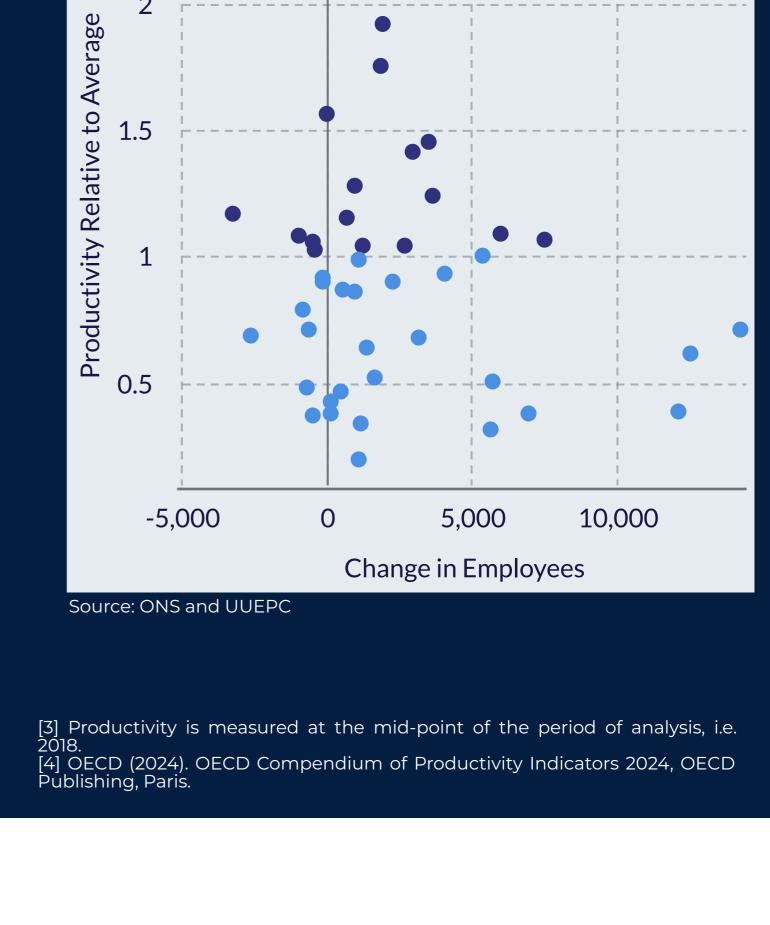
productivity areas (Chart 2) [3]. For example, the

much of the last 10 years.

Productivity is a key driver of economic growth and impacts the financial ability of employers to raise wages [4]. Therefore, it is no surprise that 73% of the expansion in jobs were also in sectors with below average wages and that the greater employment increase in below productivity sectors has resulted in low overall average wage growth. The close correlation between productivity and wage growth reinforces the policy need to focus on measures that raise productivity to achieve

Chart 2: Change in Employees 2013 to 2023 and **Relative Productivity per Job** Above Avg. Productivity
Below Avg. Productivity

higher real wages and improve living standards.



This represents approximately 51k people and is the largest pool of untapped labour in the economy, more than double the 23k people officially unemployed. If this 'hidden unemployed'

group were to be included in the unemployment

rate calculation, it would more than treble to

Over half (56%) of the economically inactive who

state that they 'want to work' are suffering from

#### health problems, followed by those looking after the family/home (21%), other reasons (12%), non-Demographic transition has contributed to this working students (11%) and retired persons (0.5%) staff shortage. Between 1980 and 2010, NI's (Chart 4). working age population (individuals aged 16 to

as caring

8.3%.

change their attitudes to capital investment and recruitment approaches. The NI unemployment rate is now back to its record low of 2.0%, however, there are approximately 320k economically inactive, who are neither in employment nor classified as unemployed. For many in this participating in work is not a realistic option, but approximately 16% state that they 'want to work' (Chart 3). Typically, these people have not been able to access job opportunities because of

responsibilities or health problems alongside

Chart 3: Economically Inactive (aged 16-64), would like

— Northern Ireland — United Kingdom

barriers to employment such

lower level skills.

Source: Labour Force Survey

the

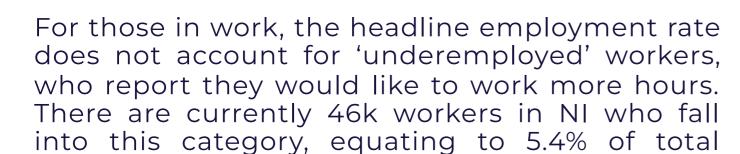
5).

15

Note: Figures refer to a 4-quarter rolling average

to work, NI & UK, 1995-2024

<u>§</u> 30 Proportion of total economically inactive



employed and they are typically younger, female

Recent <u>UUEPC</u> research quantified the overall

level of spare capacity [5] in the NI labour market

by estimating the unused labour hours across

economically inactive who 'want to work'. The

research highlighted that NI has the lowest rate

of spare capacity across the 12 UK regions (Chart

**Chart 5:** Standardised Spare Capacity (%) in the

Labour Market (hours based), UK Regions, Q1 2024

underemployed

and have lower-level qualifications.

unemployed,

home in 1996 accounted for around two-fifths (43%) of the economically inactive who would like to work (now 21%). In contrast, those with health problems have increased from 20% to 56% over the same period. Separately, people with a selfdeclared disability now represents over threefifths (64%) of the total hidden unemployed group. This highlights the importance of

The composition of this group has changed over

time. For example, those looking after the family/

improving access and inclusivity across NI workplaces and the need for employers to rethink their approach to recruitment. Chart 4: Economic Inactivity (aged 16-64), would like to work by reason, Q1 2024 Sick Looking after family/home Other

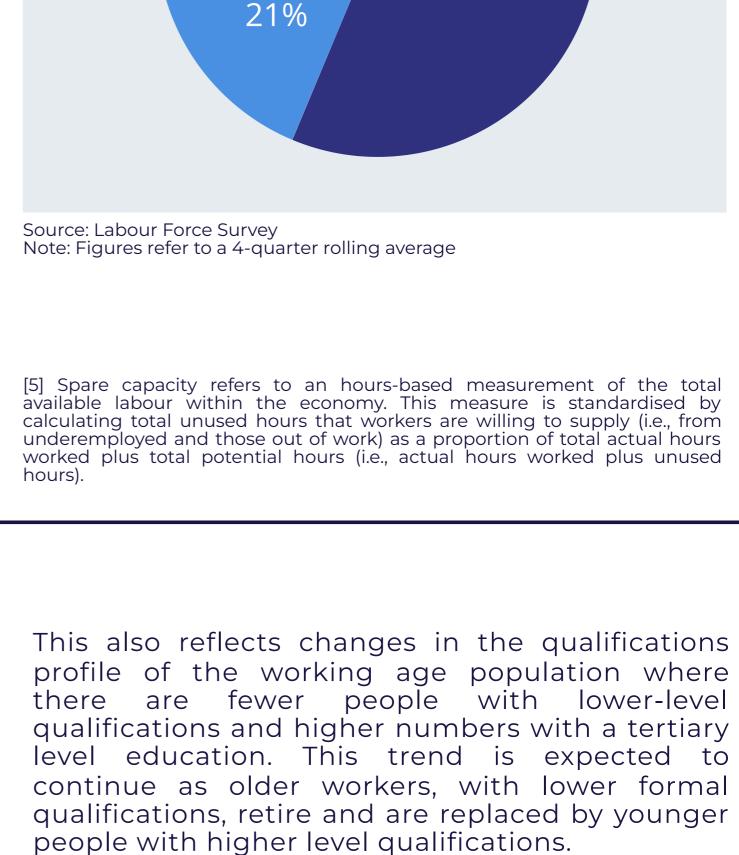
0.5%

56%

11%

Student Retired

12%



**Chart 6:** Spare Capacity in the Labour Market (hours based, aged 16+) by qualification level, NI, 2009-2024

Below RQF level 2 ■ RQF level 2-3 ■ RQF level 4+ 6,000,000 Spare capacity (hours) 2,000,000 2,000,000 1,000,000 5,000,000

0

Source: Labour Force Survey

problems

qualifications are

economic growth.

interventions

Total unused available hours/total population Yorkshire and Humberside South East Northern Ireland United Kingdom East of England south West Horth West West Midlands

Taken together, the NI labour market has the

UK's lowest unemployment rate, the lowest

percentage of economically inactive who 'want

to work' (despite having one of the highest

economic inactivity rates in the UK). These

factors have combined to create one of the

Encouragingly, the total number of used labour

hours has fallen year on year since 2012, but the

skills mix has changed significantly. Those with

lower-level qualifications have recorded a fall in

their share of the total number of unused hours

from two-fifths (40%) in 2009 to over a quarter

tightest labour markets ever recorded in NI.

and

the

period for

rate

Source: Labour Force Survey

underemployment

Note: Figures refer to a 4-quarter rolling average

(27%) in 2024 (Chart 6). This has been driven by the strong employment growth in sectors such as hospitality over the last decade, as they tend to rely heavily on recruitment from nongraduates, but this will have a disproportionate impact on future growth in those same sectors as the pool of available labour shrinks. **Sectoral Forecasts** Manufacturing

a challenging

Manufacturing, the 12 months to March 2024 saw

a 2.1% increase in employment in the sector,

(compared to a 1.3% decline in overall UK

Manufacturing employment). This was driven by

strong growth in the *Transport*, *Food* and

Ulster Bank's Purchasing Managers' Index (PMI)

suggests the highest level of optimism in the

sector over the next 12 months since 2017 [6]. In

the medium to long-term, the sector will face

increasing competition from lower cost overseas

producers, however it is forecast that the sector

will continue to expand, with strong growth

expected in advanced manufacturing such as

Construction has had a very difficult few years,

but finally seems to have turned a corner with a

return to employment growth. This is supported

Following

Chemical sub-sectors.

Construction

A growing working age population has played an important role in driving the NI economy over the past 50 years, but a slowdown in the growth of labour inputs because of demographic trends, will impact economic growth potential. As a result, NI can no longer afford to have underutilised spare capacity in its labour market and maximising the potential of mothers, older

workers, disabled talent, person with health

This is a diverse group, requiring a broad range of

participation and in the absence of successful

policy, employers will experience increased

competition for skills and the potential of many

enable

those

with

key to unlocking

2014 2015

2012 2013

2012

Note: Figures refer to a 4-quarter rolling average

and

to

working age people will be lost.

2015 2016 2017

2018 2019

2020

lower

labour

level

future

market

2021 2021

2018

the largest year-on-year decrease in footfall across all the UK nations (of 11.1%). In contrast to these challenges, Professional Services, Admin' & Support and Information and Communication Technology continue to show strong growth. The local tech sector has continued to grow and the region remains one of the leading FDI locations for US cyber security investment and EU new software development [12].

investment which would boost wider economic

growth and is projected to see an increase in employment driven by the Department for

In addition, lengthy waiting lists and the longer-

term strain on the Health Service, will result in

continued employment growth. Furthermore,

reliance on migrant labour will be less of a

challenge for Health than other parts of the

economy as the UK Government will exclude the sector from the £38,700 salary threshold applied

to skilled workers visa applications to alleviate

**Sectoral Employment Actual and UUEPC Forecast** 

2020-23

Recovery)

-4.8

-0.1

1.8

-0.1

0.7

-6.6

-1.9

-1.7

5.4

3.0

-0.2

0.3

8.8

4.7

2.9

7.5

-0.6

3.0

0.7

22.8

[10]Belfast City Council (2023): All-Party Working Group on the City Centre. [11] British Retail Consortium (2024): Slow Start to Spring as Footfall Declines.

(Recovery) (COVID& (Baseline) (Upper)

2024-33 2024-33

0.3

0.0

5.7

1.8

1.4

7.6

0.9

6.0

7.2

9.9

3.3

0.6

10.3

3.4

2.1

1.0

12.3

2.4

3.2

79.3

0.2

0.0

5.0

8.0

1.2

7.4

-2.6

4.2

6.0

8.6

1.7

0.1

8.3

3.2

0.4

0.4

11.3

0.7

0.9

57.7

2012-19

-4.9

0.1

18.2

8.0

1.6

7.5

7.0

5.5

9.0

6.6

0.0

0.4

Infrastructure's "Living with Water" project.

However, a BRC [11] survey (4 week, period 31

March to 27 April 2024), reported that NI had

#### 11.0 Administration Services 14.6 Public Admin' & Defence -6.1 Education 4.8 Health & Social Work 13.7

recruitment pressures.

(000's)

Industry

Agriculture

Manufacturing

Water & Waste

Transport & Storage

Financial Services

Info' & Communication

Professional & Scientific

Construction

Hospitality

Real Estate

[12]InvestNI (2024).

Mining

Utilities

Retail

#### Transport Equipment and Computer, Electronic and Optical Parts alongside the very important Food Manufacturing sub-sector. Importantly, this growth must be underpinned by capital investment and ongoing development of the skills base.

by the latest Ulster Bank PMI which reports overall construction output increasing at its fastest rate in 4 years. Although construction costs continue to rise, the rate of increase is at its slowest pace in nearly 4 years, with the 2024 average tender price inflation rate expected to fall to 3.1% [7]. NI construction costs remain significantly above the with global International average, an Construction Cost Index 2024 score of 145 [8] (a score of 100 represents the global average). Encouragingly, Belfast's index significantly lower than other parts of these islands, London (score of 223, the highest

globally), Edinburgh (169), Cardiff (167) and Dublin

(163). Global supply chain issues post-Covid

followed by the war in Ukraine set the backdrop

for many of these cost issues, but longer term net

zero regulations also continue to add to

construction costs. Lastly, Construction is also amongst the most sensitive to interest rates, and

as the Bank of England starts its process of

adopting a more accommodative monetary policy, demand in areas such as domestic new build could start to recover [9]. **Private Sector Services** The prospects for Retail had been negative for some time with the shift to online shopping and the persistence of working from home impacting urban centres. However, employment growth has returned and although not back to pre-pandemic levels, job numbers have increased by almost 0.5% in the 12 months to March 2024. There remains mixed evidence on the levels of footfall with Belfast City Council reporting a 7.5% increase in average footfall between November 2022 and November 2023 (equivalent to weekly footfall increase of approximately 50k [10]).

**About UUEPC** 

debate.

[6]Ulster Bank (2024): Ulster Bank Northern Ireland PMI

[8] ARCADIS (2024): International Construction Costs 2024.

[9] Department of Finance (2024): New Dwelling Statistics Quarter 1 2024.

UUEPC is an independent economic research centre

focused on producing evidence-based research to

inform policy development and implementation. It

engages with all organisations that have an interest in

enhancing the Northern Ireland economy. The

UUEPC's work is relevant to government, business and

the wider public with the aim of engaging those who

may previously have been disengaged from economic

7]AECOM (2024): Ireland Annual Review 2024.

**Public Sector Services** Despite the recent funding boost and a return of the NI Executive, significant financial pressures remain to address the impacts of long-standing under-investment and the need to reform the delivery of public services. Water Supply and Waste is a primary candidate for increased

Arts & Entertainment 2.2 9.8 Other Services 101.8 Total

# **Contact Us**

Principal Economist: Dr Eoin Magennis @ e.magennis@ulster.ac.uk Principal Economist: Dr Karen Bonner @ ka.bonner@ulster.ac.uk

- Senior Economist: Gillian Martin @ g.mcausland@ulster.ac.uk Senior Economist: Anastasia Desmond @ a.desmond@ulster.ac.uk
  - Assistant Economist: Sarah Perry @ s.perry@ulster.ac.uk

@Ulster University Economic Policy Centre

Director: Gareth Hetherington @ g.hetherington@ulster.ac.uk Principal Economist: Mark Magill @ md.magill@ulster.ac.uk

Principal Economist: Dr Myles Patton

@m.patton@ulster.ac.uk Senior Economist: Marguerite Shannon @ m.mcpeake@ulster.ac.uk

Department for the Finance | **Airgeadais** Invest Northern

> City Council Derry City & Strabane Derry Cittie & Stràbane

> > **Armagh City** Banbridge & Craigavon **Borough Council**

Comhairle Ceantair

an Iúir, Mhúrn agus an Dúin Newry, Mourne and Down

Ireland Assistant Economist: Todd Gowdy @t.gowdy@ulster.ac.uk Centre Co-ordinator: Danielle McKee Northern @ d.mckee@ulster.ac.uk Ireland Website: www.ulster.ac.uk/epc Office @economicpolicycentre@ulster.ac.uk Belfast